

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF THE)
SEWAGE TREATMENT PLANT) CASE NO. 8127
SERVING WRIGHT ACRES SUBDIVISION)

O R D E R

On October 24, 1980, E. W. Richmond ("Petitioner") informed the Commission that he owned and operated a sewage disposal plant serving Wright Acres Subdivision located in Daviess County, Kentucky. The plant served approximately 30 single family residential customers at that time and was designed to serve 115 single family residential dwellings which were planned when the subdivision was fully developed. Petitioner requested permission to increase his rate for service rendered.

After numerous telephone conversations with various parties concerned in this matter, the Commission was apprised that Petitioner was in the process of divesting himself of the sewage disposal plant and the same had been acquired by Gilbert Construction Service, Inc. ("Applicant"). On April 10, 1981, Applicant filed an amended petition substituting itself for Petitioner. Applicant stated that it was ready, willing and able to render adequate sewer service to the residents of the Wright Acres Subdivision and was presently rendering service to 33 residential customers.

Applicant requested the Commission to substitute it for Petitioner in this proceeding, to approve and confirm the transfer to the subject sewage treatment facility to it, to authorize it to continue rendering service to the residents of Wright Acres Subdivision, and to approve an increase in the monthly sewer service charge.

In an Order dated February 18, 1981, the Commission set a public hearing to be held April 15, 1981, at its offices in Frankfort, Kentucky. Notice of such hearing was provided by Applicant in accordance with the Kentucky Revised Statutes and the Commission's Regulations. A public hearing in this matter was held as scheduled with the Consumer Intervention Division of the Attorney General's Office being the only party to intervene. Applicant has responded to all requests for information, and the record in this matter is now considered to be fully submitted for final determination by this Commission.

Test Period

For purposes of testing the reasonableness of the proposed rate, the Commission has adopted the 12 months ended September 30, 1980, as the test period. Adjustments, when proper and reasonable, have been included to reflect current operating conditions more clearly.

Revenues and Expenses

Applicant proposed several adjustments to its operating expenses. The Commission is of the opinion that the adjusted

level of operating expenses is generally proper and has been accepted for rate-making purposes. However, the Commission wishes to apprise Applicant that certain expenses may be considered of a capital nature and/or inappropriately expensed. As the materiality of these expenses has no effect on the Applicant's rate in this proceeding, the Commission has made no modifications herein.

However, in all future rate proceedings before this Commission, Applicant is hereby apprised that it will be required to provide detailed information sufficient to permit the Commission to analyze thoroughly and make its determinations on test year expenses included in operations. Moreover, the Commission in accordance with its regulations, herein reminds Applicant that its accounting records are to be maintained in accordance with the Uniform System of Accounts for Class C and D Sewer Utilities, which, if followed appropriately, will eliminate future problems in the classification of expenditures.

Therefore, Applicant's test period operations have been adjusted as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 1,160.00	-0-	\$ 1,160.00
Operating Expenses	6,981.71	\$ 1,361.07	8,342.78
Net Operating Income	<u>\$(5,821.71)</u>	<u>\$(1,361.07)</u>	<u>\$(7,182.78)</u>

Return

The Commission is of the opinion that the adjusted operating income is clearly unjust and unreasonable. Further, the

Commission is of the opinion that the proposed rate should be approved as the revenues of \$5,940 generated by the proposed rate will improve Applicant's financial position. In addition, Applicant's service area has experienced growth subsequent to the date of the petition which would increase revenues to a level of \$7,560. However, the Commission is concerned that while the rate requested by Applicant and approved herein will improve its financial position, it is inadequate to produce an operating ratio of 88%, that operating ratio normally found to be fair, just and reasonable to provide a reasonable surplus necessary for equity growth. Although Applicant's financial position may be further improved by future growth, the Commission is of the opinion that it will be unable to continue operating for an extended period of time under these conditions. Therefore, the Commission encourages Applicant to reassess its financial position and to take the necessary steps to ensure its financial stability.

Summary

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that:

(1) Applicant has filed with this Commission a valid third-party beneficiary agreement.

(2) The transfer of the sewage treatment facilities serving Wright Acres Subdivision and its environs is in the public interest and should be approved.

(3) The rate prescribed and set forth in Appendix A is the fair, just and reasonable rate to charge for sewer service rendered by Applicant in that it should improve Applicant's financial position.

(4) Applicant should immediately establish and maintain plant and other records in such manner as will enable it and the Commission to determine the net investment and capitalization.

(5) Due to the transfer of ownership of this utility, its annual report for the latest year has not been filed at this time and that all efforts should be made to file this annual report within 30 days from the date of this Order.

IT IS THEREFORE ORDERED that the transfer of the sewage treatment facilities serving Wright Acres Subdivision and its environs shall be and is hereby approved and confirmed.

IT IS FURTHER ORDERED that the rate sought by Applicant is hereby approved and set forth in Appendix A to this Order to become effective for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Applicant shall immediately establish and maintain plant and other records in such manner as will enable it and the Commission to determine the net investment and capitalization.

IT IS FURTHER ORDERED that the 1980 annual report shall be filed with this Commission within 30 days from the date of this Order.

IT IS FURTHER ORDERED that Applicant shall file with this Commission within 30 days from the date of this Order its revised tariff sheet setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 5th day of August, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katharine Randall
Vice Chairman

Don Harman
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8127 DATED AUGUST 5, 1981.

The following rate is prescribed for the customers in the area served by Wright Acres Subdivision. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

<u>Customer Category</u>	<u>Monthly Rate</u>
Single-Family Residential	\$15.00 per residence